ANNUAL USE OF CAPITAL SURVEY - 2009

NAME OF INSTITUTION
(Include Holding Company Where Applicable)

VALLEY FINANCIAL CORPORATION, HOLDING COMPANY FOR VALLEY BANK

Person to be contacted regarding this report:	Ellis L Gutshall, President/CEO	RSSD: (For Bank Holding Companies)	2314327
CPP Funds Received:	$16,019,000	Holding Company Docket Number: (For Thrift Holding Companies)	
CPP Funds Repaid to Date:	$0	FDIC Certificate Number: (For Depository Institutions)	34019
Date Funded (first funding):	12/12/2008	City:	ROANOKE
Date Repaid[1]:		State:	Virginia

[1]If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP). To answer that question, Treasury is seeking responses that describe generally how the CPP investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP investment was deployed or how many CPP dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

What specific ways did your institution utilize CPP capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP funds were outstanding).

☒	Increase lending or reduce lending less than otherwise would have occurred.	During 2009, loans outstanding grew by $18mil, or 3.3% to $566mil. Given the economic environment, this increase was considered quite good. However, compared to the company's history of credit origination and asset growth, this increase was quite small by comparison.

☒	To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).	For the period from Jan 1, 2009 through Dec 31, 2009, CRE loans increased by $30mil, or 14%, HELOCs increased by $5.5mil, or 22%.
☒	Increase securities purchased (ABS, MBS, etc.).	MBS portfolio increased by $8.6mil, or 18% from 1/1/09-12/31/09.
☐	Make other investments	None
☒	Increase reserves for non-performing assets	Due to the effects of the economic crisis, provisions for loan losses grew to $15mil in 2009 compared to $3mil in 2008.

☒	Reduce borrowings	While not a direct use of the TARP CPP capital, FHLB borrowings did decline by $12mil during 2009. Strong core deposit growth provided the funds that enabled the bank to fully retire the borrowings as they matured.
☒	Increase charge-offs	Due to the effects of the economic crisis, loan chargeoffs were $8.2mil in 2009 compared to just $.6mil in 2008.
☐	Purchase another financial institution or purchase assets from another financial institution	
☒	Held as non-leveraged increase to total capital	$14.5mil of the $16mil TARP CPP capital was downstreamed to the bank to support additional loan and asset growth. Just $1.5mil remains at the holding company for future use.

What actions were you able to avoid because of the capital infusion of CPP funds?

Due to the effects of the economic crisis, loan chargeoffs and additional provisions adversely affected the bank's operating performance, resulting in a net loss for 2009 of $5.7mil compared to a net profit of $1.7mil for 2008. Without the additional capital raised through the preferred stock placement with the UST, capital ratios would have been strained. The company would have had to possibly pursue the common equity markets at a time when raising public equity was depressed or consider shrinking the size of the bank, which would have included curtailing lending activity and possible sales of loan and investment assets.

What actions were you able to take that you may not have taken without the capital infusion of CPP funds?

During the 4th Quarter of 2008 and throughout 2009, the bank was presented with numerous opportunities to move high quality customers, both business and individuals, into the bank from other competitors. These new potential customers had significant credit needs and the additional capital provided the needed capital strength to support the increase in lending at a time organic earnings were non-existent.

In anticipation of receiving this additional capital, the Bank was very aggressive in its lending activities during the last quarter of 2008. Loan balances increased $37.5 Million in the 4th Q alone, which represented a 2.3X leveraging of the new capital within 90 days. During 2009, loans outstanding grew by $18mil, or 3.3% to $566mil. MBS investments grew by $9mil, or 18% during 2009 to $56mil.

Specifically, during the period from September 30, 2008 through December 31, 2009:

CRE loans increased by $63mil, or 33%,
HELOCs increased by $6.2mil, or 25%,
Closed-end 1-4 family increased $3.6mil, or 4%.

MBS portfolio increased by $10.8mil, or 24% from 9/30/08-12/31/09.

Please describe any other actions that you were able to undertake with the capital infusion of CPP funds.

None noted.

According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 1505-0222. The time required to complete this information collection is estimated to average 80 hours per response.